

Master Marketer Newsletter

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Texas Agricultural Extension Service, The Texas A&M University System



Master Marketer Highlights

New Master Marketers in South Texas

November 11th was “graduation” day for 44 new Master Marketers at the 1999 Victoria program. On the last day, the outstanding South Texas group was challenged by Darrell Holaday to move to a new level of marketing. He questioned some of their current marketing strategies and encouraged them to approach risk management considering the new tools they had acquired in the Master Marketer program. Jackie Smith reviewed the objectives of the Master Marketer Program and reminded the group of the expectations of them in working with their county agent to start new marketing clubs. Many of the members of the Victoria class are already meeting with marketing clubs or have immediate plans to start or revive a marketing club.

Lubbock Master Marketer 2000

In January and February of next year the Master Marketer Program will return to Lubbock. It is expected to fill up before the December 15 deadline. Anyone interested in participating in the Lubbock 2000 session should call Jackie Smith at 806-746-6101. The first regular session is on January 12-13, 2000. For those needing a review of the basics of futures and options, leveling workshops will be held December 10, 1999 and January 11, 2000. Any paid registrants may attend either of the leveling workshops which will be held at the Texas A&M Research and Extension Center north of Lubbock. Each of the two leveling workshops will begin at 9:00 AM and end at 4:00 PM.

Unlike the 97 Lubbock program, the Lubbock 2000 program will include a livestock component. On February 10, day 2 of session III, Dr. Darrell Peel from Oklahoma State University will present a discussion on livestock market fundamentals as well as lead the packer-feeder simulation game. Since there was not a livestock day for the first Lubbock session, we are extending a special invitation to the previous class to attend the February 10 class for the presentation and the game. Dr. Peel is one of the developers of the OSU packer-feeder game, which has received national recognition as an innovative teaching tool.

Still Need Your Lubbock 97 Surveys

If you are a Lubbock 97 Master Marketer and have not sent in your evaluation survey, please do so as soon as possible. If you need another copy, call Jackie Smith at 806-746-6101. Please return the survey even if you have negative comments.

Planning Continues on Future Programs

Plans are progressing well for future Master Marketer programs to be held around the state as well as specialized companion programs. The next two target areas for Master Marketer will be the Uvalde area and then the Abilene area. Dates and specific locations have not been set. Several companion programs are in various planning stages. Planning for a lender's program is in the focus group stage. A program for new producers is in the early planning phase and if implemented, could possibly begin two years from now.

Guest Column

Three Tax Planning Tips

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DID YOU HAVE A GOOD YEAR? Income Averaging May Help!

For tax years beginning after 1997, farmers can choose to average part or all of their farm income over three years. Farm income is based on taxable farm income. It includes all income, gains, losses, and deductions attributable to any farming business. Gain from the sale or other disposition of land is not included, nor is timber considered farm income. Farm income averaging is not available to regular corporations, trusts, or estates. Share lease landowners who do not materially participate in the business for self-employment tax purposes and use Form 4835 are also not eligible.

The basic concept of farm income averaging is simple. A farmer may elect to average part or all of the farm income in a year, e.g. 1999, and have that elected farm income treated as if it had been earned equally over the preceding three years, 1996 to 1998, and taxed at the rates for those years. The

elected income is spread equally over the three prior or base years. Income averaging may reduce the income tax liability of a farmer but it has no effect on self-employment tax liability.

To illustrate income averaging, assume that a farmer (married filing jointly) has a taxable income of \$123,000 in 1999 and taxable income had been \$10,000 each of the three preceding years. Without income averaging, the farmer's 1999 income tax liability would be \$29,412. The last dollars of the farmer's income are taxed at the 31 percent marginal income tax rate. However, in the three preceding base years the farmer's marginal tax rate was only 15 percent. If the farmer elected to average \$81,000 of 1999 taxable income, the 1999 income would be reduced to \$42,000. This is close to the top of the 15 percent tax bracket for a married couple, filing jointly. The \$81,000 of 1999 elected farm income would be treated as if \$27,000 had been income in each of the three preceding base years and taxed at that year's tax rate. Thus, after averaging, taxable incomes in 1996, 1997, and 1998 would be \$37,000 each year. In this example, all of the elected farm income would be taxed at a marginal tax rate of 15 percent. Income taxes would be \$29,412 without averaging and \$18,450 with averaging for a savings of \$10,962.

Farmers can elect, subject to some restrictions, the amount and type of income that they wish to average. Commonly, farmers will have ordinary income from Schedule F and depreciation recapture. They may also have Section 1231 gains reported on Form 4797, which are treated as long-term capital gains. In the 1996 tax year, capital gain income was taxed at the lower of the taxpayer's regular tax rate or 28 percent. In contrast, for 1999, the maximum tax rate on long-term capital gains is 20 percent. A farmer can elect to average ordinary income and allocate 1999 farm capital gain income (unless offset by non-farm capital losses) to the 1999 year. For example, assume a producer has \$50,000 of Schedule F net income, \$30,000 of farm Section 1231 gains and no non-farm income or losses. The farmer could elect to average up to \$50,000 of farm income and allocate all of the Section 1231 gain to 1999. All of the elected income would be ordinary income and allocated equally to the three prior years. However, if the farmer elected to average \$60,000 of farm income, at least \$10,000 would be Section 1231 gains. In this situation, one-third of the elected Section 1231 gain would be allocated to each of the prior years and taxed according to the rules for that year.

Farmers who are subject to the alternative minimum tax (AMT) in a year will not reduce their tax liability by income averaging, and in some instances income averaging may make a farmer subject to AMT.

Since the decision to average income in a year is an irrevocable election, a careful analysis is necessary before filing and before the end of the tax year if possible. Income averaging will have the greatest attraction for farmers whose income in one year is much higher than in the preceding three years. Retiring farmers and others disposing of assets may also be able to take advantage of income averaging.

DID YOU HAVE A ROUGH YEAR? Earned Income Credit may benefit your family!

The earned income credit (EIC) was enacted to provide tax relief to low-income individuals. Even taxpayers that have no tax liability can receive a refund equal to the amount of the credit. The EIC is based on the earned income, not adjusted gross income (AGI). Factors include the amount of earned income and the number of qualifying children. For taxpayers with one qualifying child, the maximum credit is \$2,312 for earnings of \$6,800 to \$12,500 and is phased out at income of \$26,928. For two or more qualifying children, the maximum EIC is \$3,816 for earnings of \$9,500 to \$12,500 with the phase-out completed at \$30,580.

Earned income includes wages, salaries, and earnings from self-employment. For farmers, earned income also includes the depreciation recapture on the disposition of purchased breeding, draft or dairy livestock, machinery and equipment, and farm buildings. Taxpayers are disqualified from the EIC if their investment income exceeds \$2,350. Investment income includes interest, dividends and gains on the sale of nonbusiness capital assets such as stocks, bonds or other assets held for investment purposes. Gains from the sale of raised livestock and business assets treated as capital gain income are included **neither** in investment income **nor** in earned income.

Farmers with low earnings or losses from self-employment may still qualify for EIC if they elect to pay self-employment tax under the optional farm method. Farmers may elect to pay the 15.3 percent self-employment tax on \$1,600, or a tax of \$244.80. This provides two quarters of credit for social security retirement and disability benefit purposes. If the farmer had no other earned income, the EIC for 1999 would be \$113 with no children, \$502 with one qualifying child, and \$590 with two or more qualifying children. Thus, many farm families can provide for continued social security coverage at little or no out-of-pocket cost.

DID YOU HAVE A TERRIBLE YEAR? Net Operating Losses may get you a refund!

A taxable loss in the farm business may cause other tax benefits because the loss can be offset by other income in the current year or carried back to prior tax years to generate a tax refund. A taxable loss can also be carried forward to offset income taxes in future years.

First, if the farm family has other income (such as gains from the sale of cull breeding stock or other assets or income from an off-farm job) which is equal to or greater than the farm loss, then the loss is allowed in full for the year in which it occurs and there is no NOL. Second, if the farm loss is greater than other income, the adjusted gross income must be recomputed to remove some tax benefits. Third, if the loss is greater than the recomputed adjusted gross income, there is a NOL which can be carried to another tax year. Farmers may elect to carry the NOL back two years, carry a farm NOL back five years, or carry the NOL forward up to 20 years. A NOL

reduces taxable income for income tax purposes, not the earnings for self-employment taxes.

Special acknowledgment to George F. Patrick, Purdue University for extensive use of his article "Tax Planning and Management Considerations for Farmers in 1999".

Inside the TAEX System

With the ending of another year and the beginning of the next at hand, ranchers need to take a look back and determine how they performed during 1999. The Standardized Performance Analysis program can help ranchers do just that. To assist ranchers in completing this analysis, the Texas Agricultural Extension Service will be offering several Cow-calf SPA Workshops across Texas during the early months of 2000. The course will begin at 9:00 a.m. and end on the second day once the analyses are complete. These will be working workshops where the ranchers will be assisted in completing their own analysis. SPA provides ranchers an opportunity to analyze their ranch operation from both a production and financial side. SPA facilitates the comparison of an operation's performance between years, producers, production regions, and production systems. SPA is intended to be used as an annual tool by the cow-calf producer. Dates and locations include:

Amarillo - March 23-24, 2000
San Angelo - April 19-20, 2000
Ardmore, OK - April 26-27, 2000
Laredo - May 2-3, 2000
Vernon - May 9-10, 2000
Victoria - May 24-25, 2000

These are intensive workshops with the intent being ranchers completing the analysis for the 1999 calf crop. Registered operators will be sent forms to organize data before the conference. Confidentiality of the producers' data will be maintained. Individual conferences will be held with producers. Each ranch will be provided an assistant and a computer. It is important to register early so you can be advised on how to organize your data for the SPA analysis. Contact your local county Extension agent or your local district Extension economist for additional details.

Texas Risk Management Education Program

Each FARM Assistance analysis is developed using production and financial information specific to the producer's farm or ranch operation. Accurate financial and production records lead to a FARM Assistance analysis that the producer can use to make better management decisions in the future. Another benefit coming out of the FARM Assistance program is a database of real financial and production information that can be used in extension and research work statewide or in specific areas of the state.

On a statewide basis for participating farms/ranches, information for the 1998 year reveals that the average farm size was 2,728 acres, two-thirds of which were leased. The smallest farm, as far as total acres operated, consisted of 405 acres while the largest farm operated 9,137 acres. Total acres include planted, idle, and pasture acres. The average total assets and liabilities (debt) were \$1,088,000 and \$280,000 respectively which leads to a debt-to-assets ratio of .26. A debt-to-assets ratio, which is a measure of solvency, of .26 means that for every \$1 of assets there is \$0.26 of debt. The lowest debt-to-assets ratio was .03 and the highest was .75. If greater than 1.0, the business is insolvent.

These production and financial data are averages for participating farms statewide, a third of which are in the South Plains and Central Texas areas. Insight into these measures and others for specific regions of the state will be addressed in future newsletters, including new data for the 1999 year. The FARM Assistance program allows participating producers to assess the future direction and likely implications of various management strategies on their farm business. If you are interested in FARM Assistance, please call our toll-free number at 1-877-826-7475.

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